SUPPORT THE NONPROFIT PROPERTY PROTECTION ACT

Purpose: The Nonprofit Property Protection Act (NPPA) will allow Risk Retention Groups (RRGs)[1] to appropriately insure the property of their 501(c)(3) nonprofit members (in addition to the liability insurance they already provide) by offering coverage not presently available in the commercial market. This is a modest provision needed to help a specific segment of the market that has a history of facing instability in the provision of their property/casualty needs.

The Problem: Thousands of nonprofits purchase specialized liability insurance, including tailored risk management services, from RRGs the nonprofits own and govern. These nonprofits are unable to purchase property coverage on a Business Owners Policy form (½ BOP) and monoline auto physical damage (APD) they need from commercial insurance carriers[2]. Nonprofits need for these coverages emerged after nonprofits began to create their own RRGs and realized that these essential monoline coverages were not provided by commercial insurers. It was assumed that a competitive market would react and create products to meet these needs. It did not. Only a single carrier ever filed to offer the ½ BOP and monoline APD, and it plans to stop offering that coverage, not because it has a poor claims record, but because it is changing its strategic direction. This would leave tens of thousands of nonprofits that rely on an RRG without the monoline APD and property coverage they need. The insurance crisis of the past few years was dramatically blunted because of the insurance capacity provided by RRGs. If these RRGs are not able to assist these organizations, this lack of insurance would force many nonprofits providing service to children to stop providing them. This would result is an unnecessary crisis when states are already struggling to provide adequate services to children.

The Solution: The NPPA would solve this market failure at no cost to government by allowing RRGs to offer a form of property coverage that the market is not offering today. It would allow nonprofits who get insurance from their own RRGs to get the property coverage that actually fits their needs (1/2 BOP and monoline APD) and would assure that desperately needed insurance capacity and risk management for nonprofits remains in the market. The result will be the right coverage, at a the right price, from RRGs that have the tailored policies, risk management services, and underwriting expertise to serve this specialized market.

Background: The Liability Risk Retention Act was created to address just this type of problem where a narrow class of business with a specific coverage need is not sufficiently attractive to the commercial market. The LRRA provides a hybrid approach to enable a broad geographic spread of risk by allowing regulation in one state but requiring registration in all others, all the while holding RRGs to the same high standards for solvency that the NAIC promulgates for all commercial liability and property carriers. While the NPPA expands the LRRA by allowing RRGs to offer property in very narrow ways to a very limited class, it enhances state regulators' capacity to protect solvency with respect to any RRG offering property in their state under the NPPA. It does this by providing nondomicile regulators the power to issue a cease and desist against an RRG offering coverage authorized by this Act in their state, under certain conditions, as well as by allowing the nondomicile state the option to require the RRG to participate in a state guaranty fund. Further, the NPPA protects solvency by requiring an RRG to have 10 years of continuous operation and have a minimum of $20 million of capital and surplus before offering property insurance. It limits the size of the risk covered for any single member under NPPA to $50 million in recognition that larger nonprofits already have options for monoline coverage under the Commercial Property Policy from commercial insurers.

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[1] RRGs are member-owned, industry-specific insurance companies of similarly-situated entities, with similar risk exposures, , authorized by the Liability Risk Retention Act of 1986 (LRRA) .

[2] The premium for BOP policies is already low and it is not economically feasible for carriers to support an even smaller version by carving the BOP into pieces. The same principle applies to auto. It is easier for carriers to package the liability and APD and simply decline to offer coverage unless purchased as a package. However, few insurers want to take on nonprofit liability risks with volunteer drivers and frequent transport of children and other vulnerable passengers via vans and busses nor do they offer the nonowned/hired auto that includes volunteers.